

Awareness and Use of the Earned Income Tax Credit Among Current and Former TANF Recipients

Background

The Earned Income Tax Credit (EITC) can play an important role in helping TANF recipients leave the welfare rolls and stay off welfare over the long term. Many TANF recipients are reluctant to leave welfare to accept low-paying jobs. The EITC can help address their concerns by providing significant additional income beyond their earnings. The EITC can also help families who have left TANF to meet their financial needs, thereby reducing the likelihood that they will go back on welfare.

The effectiveness of the EITC, however, depends on whether TANF recipients have heard of the tax credit, and whether they are taking advantage of it. This paper summarizes findings from MAXIMUS studies about the awareness and use of the EITC among welfare recipients, leavers, and applicants. The findings are based on surveys conducted in five states: California, Illinois, New Mexico, North Carolina, and South Carolina.

Awareness of the EITC Varies by Ethnicity

As shown in Table 1, awareness of the EITC among the survey respondents varied by ethnicity. Whites and blacks were the most likely to have heard of the tax credit. In New Mexico, Illinois, and San Bernardino County, Hispanics were much less likely to have heard of the tax credit than whites or blacks. For example, only 42 percent of Hispanic welfare recipients in New Mexico had heard of the tax credit, compared to 58 percent of blacks and 65 percent of whites. In San Bernardino County, only 38 percent of Hispanic recipients had heard of the tax credit, compared to 64 percent of whites. In Illinois, only 36 percent of Hispanic applicants had heard of the credit, compared to 72 percent of blacks and 70 percent of whites. In New Mexico, Native Americans were much less likely to have heard of the tax credit than other ethnic groups. TANF leavers and applicants showed the same overall patterns as recipients.

Table 1
Percentage of Survey Respondents Who Had Heard of the EITC,
by Ethnicity (*MAXIMUS Studies in Five States*)

	Current TANF Recipients			TANF Leavers			TANF Applicants
Ethnicity	New Mexico	North Carolina	San Bernardino Co. (CA)	New Mexico	North Carolina	South Carolina	Illinois
White	65%	72%	64%	71%	88%	79%	70%
Black	58%	59%	57%	71%	79%	81%	72%
Hispanic	42%	-	38%	53%	-	-	36%
Native American	32%	-	-	38%	-	-	-
Total	46%	62%	52%	55%	81%	80%	68%

* Data for Hispanics are not shown for North Carolina and South Carolina because of small numbers

Actual Use of the EITC Also Varies by Ethnicity

Table 2 presents results from the five states on the percentage of respondents who said they had ever used the EITC. As shown, Hispanics were much less likely than blacks or whites to have ever used the tax credit. Only 30 percent of Hispanic recipients in New Mexico had ever used the tax credit, compared to 41 percent of blacks and 49 percent of whites. In San Bernardino County, only 22 percent of Hispanic recipients had ever used the tax credit, compared to 39 percent of whites. Among TANF leavers in New Mexico, 39 percent of Hispanics said that they had used the tax credit, compared to 54 percent of whites and blacks.

In most of the states, blacks were less likely than whites to have used the tax credit. For example, among TANF leavers in North Carolina, only 57 percent of blacks had ever used the tax credit, compared to 74 percent of whites. Among TANF leavers in South Carolina, 45 percent of blacks had ever used the tax credit, compared to 56 percent of whites. In both these states, employment rates among TANF leavers were actually slightly higher among blacks than whites at the time of the surveys.

Finally, among TANF recipients in New Mexico, only 22 percent of Native Americans had ever used the tax credit. Among TANF leavers in New Mexico, only 27 percent of Native Americans had used the tax credit.

Table 2
Percentage of Survey Respondents Who Had Ever Used the EITC, by Ethnicity

	Current TANF Recipients			TANF Leavers			TANF Applicants
Ethnicity	New Mexico	North Carolina	San Bernardino Co. (CA)	New Mexico	North Carolina	South Carolina	Illinois
White	49%	47%	39%	54%	74%	56%	45%
Black	41%	35%	31%	54%	57%	45%	42%
Hispanic	30%	-	22%	39%	-	-	19%
Native American	22%	-	-	27%	-	-	-
Total	33%	38%	30%	41%	61%	48%	41%

Awareness and Use of the EITC Varies by Education

As shown in Tables 3 and 4, awareness and use of the tax credit was lowest among the least educated respondents. In each state, high school drop-outs were the least likely to have heard of the tax credit, and were the least likely to have used it. Among current TANF

recipients in New Mexico, for example, only 33 percent of high school drop-outs had heard of the EITC, compared to 65 percent of persons who had attended college. In the same sample, only 19 percent of high school drop-outs had ever *used* the tax credit, compared to 55 percent of respondents who had attended college. The same pattern was true for TANF leavers. Among TANF leavers in North Carolina, for example, only

71 percent of high school drop-outs had ever heard of the tax credit, compared to 89 percent of respondents who had attended college.

Part of the reason why high school drop-outs had used the tax credit less often than more educated respondents is that they were less likely to be employed. In all of

the states, for example, the surveys showed that employment rates at the time of the surveys were much lower among drop-outs than among other respondents. It should also be noted that Hispanics and Native Americans in the samples included a higher percentage of high school drop-outs than blacks or whites.

Table 3
Percentage of Survey Respondents Who Had Heard of the EITC, by Education

	Current TANF Recipients			TANF Leavers			TANF Applicants
Education	New Mexico	North Carolina	San Bernardino Co. (CA)	New Mexico	North Carolina	South Carolina	Illinois
High school drop-out	33%	48%	39%	37%	71%	71%	55%
Completed high school only	48%	65%	57%	57%	82%	87%	71%
Attended college	65%	75%	66%	74%	89%	87%	85%

Table 4
Percentage of Survey Respondents Who Had Ever Used the EITC, by Education

	Current TANF Recipients			TANF Leavers			TANF Applicants
Education	New Mexico	North Carolina	San Bernardino Co. (CA)	New Mexico	North Carolina	South Carolina	Illinois
High school drop-out	19%	27%	19%	22%	49%	37%	26%
Completed high school only	37%	40%	35%	44%	62%	57%	46%
Attended college	55%	47%	43%	60%	74%	46%	56%

Many TANF Recipients and Leavers Are Not Claiming the EITC Even When They Get Jobs

The surveys showed that many currently employed TANF recipients and leavers had never claimed the EITC. Table 5, for example, shows that only 43 percent of currently employed TANF recipients in New Mexico had ever used the tax credit, and only 56 percent had heard of it. The

same overall pattern was true among employed TANF recipients in North Carolina and San Bernardino County.

Among currently employed TANF leavers in New Mexico, only 45 percent had ever used the tax credit. In North Carolina and South Carolina, the percentage was higher, but even in these states, a third or more of currently employed TANF leavers had never used the credit.

Table 5
Currently Employed Respondents – Percentage Who Had Heard Of and Used the EITC

	Current TANF Recipients			TANF Leavers			TANF Applicants
Response	New Mexico	North Carolina	San Bernardino Co. (CA)	New Mexico	North Carolina	South Carolina	Illinois
Heard of the EITC	56%	63%	65%	61%	84%	84%	77%
Ever used the EITC	43%	38%	41%	45%	67%	62%	56%

Use of the Tax Credit by Employed Respondents Is Most Frequent Among Persons With High Hourly Wages

As shown in Table 6, currently employed respondents were more likely to have used the EITC if they were earning relatively high wages in their existing job. Among currently employed TANF recipients in New Mexico, for example, only 39 percent of the persons who were making less than \$6 per hour had ever used the tax

credit. In contrast, 71 percent of those who were making \$8 or more in their current job had used the tax credit.

Among currently employed TANF *leavers* in North Carolina, only 58 percent of the respondents who were making less than \$6 per hour had ever used the EITC, compared to 73 percent of respondents who were making \$8 per hour or higher. A similar pattern was found among former TANF recipients in New Mexico and South Carolina.

Table 6
Currently Employed Respondents – Percentage Who Had Ever Used the EITC, by Hourly Wage Rate in Current Job*

	TANF Recipients		TANF Leavers			TANF Applicants
Hourly Wage Rate	New Mexico	North Carolina	New Mexico	North Carolina	South Carolina	Illinois
Less than \$6.00	39%	39%	33%	58%	35%	53%
\$6.00 - \$6.99	45%	44%	39%	55%	49%	59%
\$7.00 - \$7.99	58%	47%	57%	66%	58%	56%
\$8.00 and higher	71%	49%	61%	73%	61%	63%

* Data on wage rates were not collected in San Bernardino County

Use of the EITC by Currently Employed Former TANF Recipients Varies by Hours Worked Per Week

As shown in Table 7, currently employed TANF leavers were more likely to have used the EITC if they were working full-time in their existing jobs. Among employed TANF leavers in New Mexico, for example, only 37 percent of those who were currently working less than 30 hours per week had ever used the tax credit,

compared to 49 percent of those who were working 40 or more hours per week. In South Carolina, the difference was even greater – only 41 percent of those working less than 30 hours per week had ever used the tax credit, compared to 58 percent of those working 40+ hours.

Among currently employed TANF *recipients*, the percentage of employed respondents who had ever used the tax credit did not vary by work hours.

Table 7
Currently Employed Respondents – Percentage Who Had Ever Used the EITC, by Hours Worked Per Week in Current Job

	Current TANF Recipients			TANF Leavers			TANF Applicants
Hours Worked Per Week	New Mexico	North Carolina	San Bernardino Co. (CA)	New Mexico	North Carolina	South Carolina	Illinois
1-29 hours	39%	47%	40%	37%	60%	41%	51%
30-39 hours	47%	38%	41%	45%	60%	48%	62%
40+ hours	42%	47%	42%	49%	70%	58%	62%

How Respondents Are Claiming the Tax Credit

The surveys showed that, of the respondents who were claiming the tax credit, less than 10 percent were getting the tax credit in each paycheck. Almost all were waiting for year-end tax filing to receive the credit. This situation tends to reduce the effectiveness of the tax credit in providing immediate benefits to low-income families who are leaving welfare or at risk of going on welfare.

Conclusions and Implications

The findings from the different studies show that the EITC is not realizing its full potential as an incentive for TANF recipients to leave welfare and remain off the welfare rolls. Many current and former TANF recipients have not heard of the tax credit. Even more have never used it. Surprisingly, a large percentage of persons who are currently employed have never used the tax credit, even though almost all of them are eligible. In combination, these findings point to the need for more education and outreach to inform TANF recipients about the significant benefits of the tax credit.

The findings also show that awareness and use of the EITC is particularly low among Hispanics, Native Americans, and high school drop-outs, suggesting that special efforts are needed to

educate these groups about the tax credit. High school drop-outs, in particular, often have multiple barriers to employment. Lack of knowledge about the EITC is another barrier to their successful transition to self-sufficiency.

The findings from the Illinois study show that many TANF applicants who are denied benefits do not know about the EITC and have never used it. This is significant because the tax credit can be a valuable income supplement for persons who have been denied welfare benefits.

Among employed persons, awareness and use of the EITC was especially low among low-wage and part-time workers. One possible explanation is that these workers tend to have less stable employment in general. As a result, many of them may not learn about the tax credit from employers or co-workers, and may have more difficulty maintaining a record of their earnings.

This is a major problem because low-wage workers have potentially the most to gain from the EITC in proportion to their earnings. In addition, as noted earlier, the EITC can help encourage TANF recipients to accept low-paying jobs rather than staying on welfare. The effectiveness of the EITC in this regard is seriously reduced if low-wage workers do not know about the tax credit.

Citation

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Reports Used in This Paper

The following MAXIMUS reports were used in preparing this paper. See the **Publications** page at <http://maximus.com/policystudies> for more information on the reports.

New Mexico TANF Longitudinal Study: Results of the First Year Follow-Up Surveys, MAXIMUS, April 2000

Characteristics and Barriers of Welfare Recipients in North Carolina, MAXIMUS, Jan. 2001

Study of TANF/CalWORKs Recipients in San Bernardino County, California, MAXIMUS, July 2000

18-Month Follow-Up of Welfare Leavers in North Carolina, MAXIMUS, May 2001

One-Year Follow-Up of Welfare Leavers in South Carolina, MAXIMUS, March 2001

Illinois TANF Applicant Study, MAXIMUS, April 2002

The Survey Samples

New Mexico

Telephone surveys were conducted with 852 TANF recipients and 960 TANF leavers between October 1999 and February 2000.

North Carolina

For the *recipient* study, telephone surveys were conducted with 1,750 families who were receiving TANF benefits during May and June 2000. For the *leavers* study, telephone surveys were conducted with 1,696 families who had left TANF between December 1998 and April 1999. The surveys of leavers were conducted between May and November 2000.

San Bernardino County

Telephone surveys were conducted with 782 persons on TANF in February 2000.

South Carolina

Telephone surveys were conducted with 1,072 families who left TANF between October 1998 and March 1999. The surveys were conducted between October 1999 and April 2000.

Illinois

Telephone surveys were conducted with 1,049 persons who applied for TANF between June and August 2000.